

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 H-02 PA-01 PRS-01 /097 W

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R 081448Z JUL 75

FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC 6237

INFO USMISSION GENEVA

USMISSION OECD PARIS

USMISSION EC BRUSSELS

USMISSION NATO

LIMITED OFFICIAL USE THE HAGUE 3427

E.O. 11652: N/A

TAGS: EFIN, ECON, PINT, NL

SUBJECT: BREACH IN BUDGET DIKE CREATES PROBLEM FOR DUTCH
GOVERNMENT

REF: THE HAGUE 3118

SUMMARY: DOUBLING OF 1975 BUDGET DEFICIT TO
SOME 10 BILLION GUILDERS (ABOUT 4 BILLION DOLLARS
WHICH WOULD BE EQUIVALENT ON BASIS OF TOTAL POPULATION
TO BUDGET DEFICIT IN US OF ABOUT \$65 BILLION) AND
UNCERTAIN PROSPECTS FOR SIGNIFICANT IMPROVEMENT IN
DUTCH ECONOMY POSE SERIOUS DILEMMA FOR LEFT-OF-
CENTER COALITION. END SUMMARY.

1. GON'S JUNE 17 "SPRING BUDGET MESSAGE" REPORTING THAT
ESTIMATED 1975 BUDGET DEFICIT HAD DOUBLED TO 10
BILLION GUILDERS (REFTEL) WAS FOLLOWED ON JUNE 19 BY
MORE BAD NEWS, CONVEYED BY PM DEN UYL, THAT EXPECTED
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AVERAGE UNEMPLOYMENT FOR YEAR HAD BEEN REVISED UPWARD
TO 200,000 (5 PCT), FROM EARLIER OFFICIAL FORECAST OF 185
TO 190 THOUSAND. POOR SHOWING IN INDUSTRIAL PRODUCTION
INDEX FOR FIRST FIVE MONTHS OF 1975 (SEE HAGUE 3118),

EVIDENCE OF STAGNATING TRADE, AND DIMMER PROSPECTS FOR EARLY RECOVERY IN GERMAN ECONOMY PRESENT FORMIDABLE CHALLENGE TO SUCCESS OF LEFT-OF-CENTER COALITION'S SOCIO-ECONOMIC PROGRAM.

2. OUR FINANCE MINISTRY CONTACTS ARE NOT SANGUINE THAT CONDITIONS IN CAPITAL MARKET WILL PERMIT FURTHER SIGNIFICANT GOVERNMENT BORROWING. INTEREST RATES, ACCORDING TO THESE SOURCES, ARE NOT LIKELY TO DROP BY MORE THAN FRACTION OF ONE PERCENT FROM RECENT LOWS BEFORE THEY START UPWARD CLIMB. IN ANY EVENT, DUTCH INTEREST RATE STRUCTURE IS CAPTIVE TO THAT OF GERMANY AND, AS ANY BUT VERY SMALL SHIFTS IN DIFFERENTIALS WOULD RAISE HAVOC IN DUTCH CAPITAL MARKETS, GON'S ABILITY TO RESORT TO ADDITIONAL HEAVY BORROWING IS CIRCUMSCRIBED. HIGHER THAN ANTICIPATED RATE OF INFLATION CONSTRAINS USE OF MONETARY FINANCING. PRESENT CONDITIONS THEREFORE ALLOW GON LITTLE SCOPE FOR COPING WITH EXACERBATED DEFICIT SITUATION BEYOND TRIMMING OUTLAYS AND/OR RAISING TAXES, EITHER OR BOTH OF WHICH ARE CERTAIN TO PROVE HIGHLY UNPOPULAR WITH ONE OR ANOTHER PARTNER IN RULING COALITION, WHICH IS NOW IN ITS THIRD YEAR OF POWER.

3. LABOR PARTY FLOOR LEADER VAN THIJN HAS ALREADY SERVED NOTICE THAT HIS PARTY WILL SEEK EXPANSIVE BUDGET IN 1976, WHILE KVP LEADER ANDRIESEN APPEARS DETERMINED TO OPPOSE MEASURES THAT WOULD INCREASE TAX BURDEN OF SMALL SHOPKEEPERS AND RANK-AND-FILE CIVIL SERVANTS. PROSPECTS OF HIGHER-THAN-EXPECTED UNEMPLOYMENT, DESPITE CONSIDERABLE GON OUTLAYS TO IMPROVE SITUATION, AND UNAVOIDABLE NEED TO TRIM BUDGETARY SAILS WILL BE AT LEAST AN EMBARRASSMENT TO LABOR-DOMINATED GOVERNMENT. AT WORST GOVERNMENT SOLIDARITY MAY RECEIVE ANOTHER SERIOUS BLOW. IN ANY CASE, WE BELIEVE THAT PRESENT DILEMMA WILL REQUIRE GOVERNMENT, AND PARTICULARLY LABOR PARTY, TO UNDERTAKE AGONIZING BUT NECESSARY REASSESSMENT OF ITS PROGRAM. INDEED, JUNE 30
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PRESS REPORTS THAT CABINET WILL UNDERTAKE INTENSIVE DISCUSSION ON "TAXATION PLAN" DURING NEXT FORTNIGHT. PM DEN UYL IS REPORTED AS GIVING CONSULTATIONS A "REASONABLE CHANCE" OF SUCCESS. HOWEVER, HE ALSO HAS STATED PUBLICLY THAT IT MAY BE NECESSARY TO PROVIDE AN ADDITIONAL ONE BILLION GUILDERS (APPROX \$400 MILLION TO UNEMPLOYED AND LOWER INCOME GROUPS BY CUTTING BACK PLANNED SPENDING ON OTHER SEGMENTS OF BUDGET.

4. COMMENT: OVER NEAR TERM AT LEAST, BUDGETARY SITUATION PORTENDS PERIOD OF INTENSE POLITICAL DEBATE, AS COMPETING GROUPS SEEK TO AVOID PARING KNIFE. IT IS

REASONABLE TO EXPECT THAT DEFENSE BUDGET, ALREADY
POLITICAL TARGET OF LEFT-WING PARTIES, WILL AGAIN COME
UNDER HEAVY ATTACK. SOME RUMBLINGS OF DISCONTENT CAN
ALREADY BE HEARD WITH REGARD TO GON LARGESSE TO
LESS DEVELOPED COUNTRIES (GON AIM IS TO DEVOTE 1.5
PERCENT OF GNP TO DEVELOPMENT AID). TRANSPORTATION
MINISTER WESTERTEP CONFIDED RUEFULLY TO DCM THAT HE
WOULD HAVE TO ABSORB 300 MILLION GUILDER CUT (ABOUT
4.7 PERCENT OF HIS TOTAL BUDGET) BUT ADDED THAT JAN
PRONK'S DEVELOPMENT AID BUDGET WOULD ALSO FEEL THE
KNIFE. SOME OBSERVERS IN THE PRESS AND IN GOVERNMENT
ARE WONDERING WHETHER GLUE THAT BINDS PRESENT COALITION
WILL BE STRONG ENOUGH TO WITHSTAND THE HEAT AS PRIME
MINISTER DEN UYL AND FINANCE MINISTER DUISENBERG (BOTH
LABOR PARTY) SPAR WITH ECONOMIC MINISTER LUBBERS
(CATHOLIC PEOPLE'S PARTY) AND SOCIAL AFFAIRS MINISTER
BOERSMAN (ANTI-REVOLUTIONARY PARTY). COALITION'S
SOLIDARITY MAY RECEIVE ANOTHER BRUISE. IN ANY EVENT,
THERE IS A NEED FOR THE GOVERNMENT COALITION TO REACH
AN ACCOMMODATION ON SPENDING PROGRAMS AND DEFICIT
FINANCING.
GOULD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, ECONOMIC CONDITIONS, BUDGET DEFICITS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975THEHA03427
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D750235-1120
From: THE HAGUE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197507103/baaaafco.tel
Line Count: 133
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 23 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 APR 2003 by ShawDG>; APPROVED <24 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: EFIN, ECON, PINT, NL
To: STATE INFO GENEVA
OECD PARIS
EC BRUSSELS
NATO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006

